

- **Schools and Libraries Are Fully Funded**

The FCC also could adopt the recommendation of the Joint Board to fund universal service support for schools and libraries up to \$2.25 billion per year. Under the proposal, support for schools and libraries could be implemented during 1997 or 1998 without raising prices to consumers. However, because the Joint Board found that the bulk of the \$2.25 billion was necessary to fund internal connections, the proposal reduces the amount of universal service support for schools and libraries once the internal connections have been funded. We estimate that only \$500 million will be necessary on an annual basis for the ongoing universal service costs for schools and libraries.

- **Expanded Lifeline Programs**

The Coalition's proposal for universal service for low-income consumers also follows the recommendation of the Joint Board, but with a phased-in approach. Under the proposal, universal service for low-income consumers would continue to be funded as it is today until July 1, 1999, at which time, the federal contribution would increase by \$300 million. The maximum federal contribution would increase again on July 1, 2000 by an additional \$300 million. A phase-in of the increased level of support for low-income consumers is justified based on the mixed record of the need for any increase in support, and because it will take some time for states to implement the new Lifeline plans.

- **Rural Health Care Providers**

The proposal also supports universal service for rural health care providers beginning on July 1, 2000 in the amount of \$400 million, which is sufficient to provide T-1 service to rural health care providers. The record evidence demonstrates that universal service for rural health care providers can be achieved with T-1 service.

G. Consumer/Business Coalition Proposal Provides Clear Path To Flexibility and Deregulation for LECs

The Consumer/Business Coalition compromise provides significant benefits to incumbent LECs, IXC's and consumers alike. It is a true Win/Win/Win proposal:

- **Complete Pricing Flexibility in 5 years**

The incumbent LECs have been pushing very hard for increased pricing flexibility for interstate access services. This flexibility they seek includes downward pricing flexibility, deaveraging of switched access services, volume and term discounts, contract tariffs and others. This plan would preserve the FCC's recent decision to allow complete downward pricing flexibility for incumbent LECs while at the same time laying out a time line for further flexibility and ultimately, total deregulation of access. Under the consumer/business coalition compromise, incumbent LECs will get complete pricing flexibility for access in just five years without having to petition the FCC or make specific showings of actual competition.

- **LECs Keep More Earnings**

At the same time, the incumbent LECs have been pushing the FCC to eliminate the sharing requirements which provide that an incumbent LEC must share some or all of its earnings above certain prescribed levels with customers. Sharing applies to those companies that elect a productivity adjustment of 4.0% or 4.7%. It was originally established as "an insurance policy" for access customers in case the FCC's price cap rules failed to properly reflect the costs of the incumbent. It has been invoked frequently and consumers have seen extensive benefits from it. The Consumer/Business Coalition plan would provide additional regulatory relief for the incumbent LECs through the elimination of the current sharing requirements. After adoption of the 7.5 percent x-factor and the path to TELRIC pricing of access, the incumbent LECs would be able keep all of their earnings from access, no matter how great.

- **Regulatory Certainty for All Parties**

All parties benefit from regulatory certainty. The Consumer/Business Coalition plan sets out the path and determinative timeline toward complete deregulation of access services for everyone. As all industry parties complete their business plans for entry into new lines of business, a clear understanding of the regulatory landscape can be extremely valuable. For consumers, this will lead to more vigorous competition in all markets sooner rather than later, without things getting bogged down in court and at the regulatory agency.